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## Redesigning Wealth Redistribution Systems in Local Government

*A Theory-Based Stakeholder Analysis of Power Struggles Amongst Danish Municipalities*

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# Redesigning Wealth Redistribution Systems in Local Government:

A Theory-Based Stakeholder Analysis of Power Struggles Amongst Danish  
Municipalities

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## **Abstract**

The struggle over the Danish redistribution system for reducing economic inequality between local governments has been ongoing for decades and the most recent debate concerning how to reform the system has been unusually tense. The 98 Danish municipalities have recently organized into three different coalitions combating each other as the government is about to reassess the system. In light of the recent developments in Denmark, the article analyzes the *raison d'être* of the contemporary Danish redistribution system and how the three main coalitions of local governments want to adjust it. We give an introduction to the Danish redistribution system and its historical roots. We analyze similarities and differences in the three groups' intervention theories concerning how to change the contemporary system. Although the three groups have vastly different views of how the system is supposed to be working and how they see it fit, they still agree that some level of redistribution between the municipalities is desirable. The analysis unveils how classical arguments of redistribution are mobilized in contemporary power struggles over the design of redistribution systems.

## Introduction

The design of local redistribution and grants systems is a classical issue in the local government and finance literature (Musgrave, 1959; Sato, 2007), however, we know little about how local actors' arguments are mobilized in struggles over local redistribution systems. Focusing on the Danish case, we seek in this article to understand the politics of local redistribution and grants systems by analyzing how local actors mobilize classical arguments of redistribution.

The struggle over the Danish redistribution system for reducing economic inequality between local governments has been ongoing for decades. The power struggle is as old as the system itself – the institutional underpinnings of the system can at least be traced back to the 1930s – however, as some local governments feel increasingly constrained by aging and budget constraints the struggle has intensified over the last years. As a result, the 98 Danish municipalities have recently organized into three different coalitions combating each other as the central government is about to reassess the system. The three coalitions have vastly different views of the problem pressures, the solutions and how the system should be working – i.e. they have vastly different intervention theories (Hansen & Vedung, 2010). The Danish interregional equalization system is, therefore, highly contested amongst the local actors. Comparing the three coalitions' intervention theories, we show how classical arguments of redistribution are mobilized in contemporary power struggles over the design of the Danish interregional equalization system. To the best of our knowledge, we are the first to present a detailed analysis of the local actors' intervention theories in Denmark.

The three main coalitions amongst the Danish municipalities are "Stop Regional Discrimination", "Better Balance" and "Fair Redistribution". Broadly speaking, "Stop Regional Discrimination" – which is a coalition of municipalities located in The Capital Region of Denmark – argues that the current distribution system is too far-reaching and retards development in the whole country. As a result, the coalition wants the central government to lower the redistribution level between municipalities. Better Balance is the biggest amongst the three coalitions and argues for a simpler system that does not favor municipalities located in The Capital Region of Denmark. Finally, Fair Redistribution – a coalition amongst six municipalities located in the Central Denmark Region – argues that the present system is based on a number of systemic failures and therefore argues for a much more refined system that changes some of the basic redistribution mechanisms in the current system. Thus, the three coalitions have detrimentally different views of how the system should be reformed. Although, all three coalitions think the current system is unjust, they do agree that some level of interregional redistribution is desirable and thus that the basic tenets of the system is legitimate. The power struggle over the Danish interregional redistribution system is therefore not a debate

about whether interregional redistribution is desirable, but a fundamental debate about its institutional design. Unveiling this struggle shows how the three coalitions have vastly different views of fairness in local contemporary politics as well as the means to achieving fairness.

The three coalitions, moreover, have different power resources and mobilization strategies. Some of the coalitions' arguments are based on detailed statistical analysis, seminar discussions and the like, whereas other coalitions focus entirely on rather simplistic campaign materials and slogans. Understanding the local actors' strategies, motives and objectives are therefore important if we want to understand how classical argument of redistribution are mobilized amongst local governments in contemporary politics.

The article is structured as follows. First, we present a review of the literature. Then, we outline the theoretical approach followed by some methodological considerations. We further analyze the Danish interregional redistribution system, its main components, history and normative foundations. Next, we analyze the three coalitions' intervention theories followed by a discussion of their rationales. Finally, we conclude on the findings and points at future research agendas.

### **Literature review – the Danish interregional equalization system**

The literature on the Danish equalization system and local finance can, broadly speaking, be divided into two categories. The literature in the first category primarily pertains to the structure and historical roots of the system. The Ministry of Social Affairs and Interior (2016) is the prime guarantor of the system and publishes frequently reports on the systems institutional underpinnings and redistribution mechanisms (such as calculation methods, schemes change and the like). The Danish employer organization KL (2016) – which represent the 98 municipalities – has also published a report underlining some of the core principles of the system, namely that (1) competence and financial responsibility should go hand in hand, (2) there should be financing neutrality between substitutable municipal activities, (3) local finance systems should not distort or result in perverse incentives for municipalities, (4) differences in the quality of local services should mirror local decisions, (5) the system should not affect local decisions and priorities, (6) the system should be as transparent as possible and encourage administrative simplicity and efficiency<sup>1</sup>. Mau Pedersen & Jensen (2004) furthermore point out some of the central trade-offs in the system. The author's highlight, amongst other aspects, the central trade-off between equality and simplicity. Should the system be based on complex rules and mechanisms that seek to enhance equality or should the system be based on a principle of (administrative) simplicity? A classic example is corporate taxes. Should corporate taxes be redistributed amongst the local governments through a complex and administrative expansive but equality

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<sup>1</sup> The six principles can also be found in formal law (See Order, 1437)

enhancing system, or should it be simple, administratively easy and cheap to administer at the cost of reaching a less (Pareto) optimal distribution? It is, in other words, a trade-off between equity and efficiency (Okun, 1975). Mikkelsen (1991) and Mau Pedersen (1995) have moreover analyzed the historical roots of the system and the inherently conflictual nature of the system.

The second category of literature is more comparative in nature. This literature has been interested in depicting and comparing regions and local governments' financial resources and autonomy in the Scandinavian countries (Moisio, 2010; Oulasvirta, 1993; Rattsø, 2004; Werner & Shah, 2005). It is a general consensus that the Danish and the Swedish local governments are more decentralized compared with the Norwegians', although, the de facto decentralization of administrative capacity in the Danish municipalities have been in decline over the last two decades or so. A common thread in all the cited sources is that they focus little on the local politics of local redistribution systems. The literature, therefore, in general, lacks a focus on how local actors mobilize in struggles over local redistribution systems.

## **Data and Method**

The struggle over the Danish local redistribution system has always been contested, but the struggle has intensified significantly over the last couple of years. Namely three factors highlight the intensified power struggle. First, the 98 municipalities have formally mobilized into three major coalitions. Second, KL (the union of municipalities) has recently, as a result of internal conflict, for the first time withdrawn from the Finance Committee, which is reassessing the local redistribution system. Third, in the beginning of February 2018, Stop Regional Discrimination (the coalition of municipalities in the Capital Region of Denmark) placed an ad in one of the leading Danish news outlets stating that "enough is enough". All three developments are in stark contrast to the "business as usual" process, where the changes in the system are negotiated mannerly amongst the actors behind more or less closed doors. As such, the Danish case seems to represent an extreme case in the sense that the struggle amongst local actors in a Danish context is unusually high (Flyvbjerg, 2006). The case is therefore ideal for studying how local actors mobilize in changing local redistribution systems in a situation of intensified conflict.

The analysis is more specifically based on the five-step model for analyzing intervention theories developed by Hansen & Vedung (2010). The objective of the first step is to localize the local redistribution and grant system's situation theory, causal theory, and normative theory. Situation theory concerns *"relevant features of the context in which an intervention is supposed to take place"* (Hansen & Vedung, 2010: 300). A situation theory may include the immensity of a particular problem, how the problem has evolved over time, the origin or cause of the problem, and possible consequences if nothing is done.

Causal theory pertains to how a given “*intervention/program*” will have an impact on the problem or issue (Ibid.) - i.e. how does intervention (x) affect problem (y). The impact can either be directly linked to the underlining problem or indirectly related to other problem areas. Normative theory relates to assertions of why a set of outcomes are preferable relative to others.

The goal of the second step is to identify a *stakeholder list* – i.e. key actors in the process. “*A stakeholder is an actor (...) expressing or actually entertaining a concern for the intervention, its activities, implementation, outputs, and outcomes or otherwise having an interest vested in or being affected by the intervention*” (Hansen & Vedung, 2010: 305). Here we are not interested in single individuals – such as any given inhabitant in a municipality – but with a collective of actors or organizations. In our research we found the following stakeholders:

- Better Balance (alliance of municipalities)
- Fair Redistribution (alliance of municipalities)
- Stop Regional Discrimination (alliance of municipalities)
- KL (union of Danish municipalities)
- Ministry of Finance
- Ministry of Economic Affairs and the Interior (main guarantor of the system)
- Finance Committee (a collective of experts who are reassessing the system)
- The Government (Center-right parties)
- The opposition (Center-left parties)

Step three focuses on choosing key stakeholders from the stakeholder list. Based on the question “who has raised a policy problem” we have chosen Better Balance, Stop Regional Discrimination, and Fair Redistribution. The three actors are furthermore those who are most clearly affected by changes in the local redistribution and grant system as their financial situations hinges on the system.

The goal of step four is to analyze the three actors’ intervention theories – i.e. their situation, intervention and normative theory – and step five’s objective is to compare the three actors’ intervention theories. Step four and five is, as such, the body of the empirical analysis.

The data is moreover organized and analyzed using displays. Displays is a method that presents qualitative data in a concentrated form organized around answering a specific research question (Miles et al. 2013). The method is highly useful in our setting as it allows the researcher to organize substantial and complex materials into easily accessible displays-overviews. The empirical material is structured around the

three main parts of the intervention theory – i.e. situation theory, causal theory, and normative theory. Following Dahler-Larsen (2010) we furthermore adhere to the “principle of inclusion”. The principal of inclusion states that data material which can be categorized within any of the created categories (here situation theory, causal theory, and normative theory) should be included in the display. That way the researcher’s idiosyncrasies and predispositions should not bias the making of the displays, which is crucial for strengthening the validity of the displays. To further strengthen the validity and reliability of the displays we will, moreover, contact a representative of each of the three coalitions to ensure that our interpretation of their views is correct.

The data for analysis is, furthermore, accessed through the three actors’ homepages, where information about the actors’ opinions and arguments are formally presented. On Better Balance’s homepage, we have acquired the 11 documents from their “facts and material” page. The documents contain background notes, campaign materials and posters accounting for the coalition’s view on the system. On Stop Regional Discrimination’s homepage, we have acquired the five documents on their “Facts” page as well as their Q&A questionnaire. The documents from the Facts page are all so-called 1-page poster accounting for the coalition’s main viewpoints. Since the material on Fair Redistribution’s homepage is rather voluminous we have had to limit their data sources to documents released in the period from 2016-2017. The 2016-2017 period has been chosen based on a “news principle”, however, when referred to, we have also oriented us in former publications. As such, 20 documents from Fair Redistribution’s homepage have been accessed under their “Materials and activities” page. The documents are a mixture of news articles, background notes, and empirical analysis using, amongst other techniques, linear regression analysis. All data was accessed in October 2017 before the regional elections in November 2017. The analysis presented here therefore only pertains to the political landscape before the 2017 local government elections.

The advantage of this strategy is that it allows us to gain an authoritative account of the three main actors’ intervention theories that is easy to replicate as all documents are official accessible. A disadvantage is, however, that there are big differences in the quality and level of details in the documents. The material gained from Fair Redistribution’s homepage is, for example, much more detailed relative to the somewhat simplistic campaign material accessed through Stop Regional Discrimination’s homepage. As such, the quality of the documents impacts the accuracy to which we can assess the actors’ intervention theories. We will discuss this later as the quality of the actors’ own analysis also indicates their organizational resources and strategies in mobilizing their arguments.



## **The contemporary Danish grants and local redistribution system**

The Danish government is organized into three tiers: the central state, regions, and municipalities. The two latter can be viewed as local actors and receives funds from the state through (block) grants and subsidies (municipalities also collect their own taxes). The five Regions and 98 municipalities furthermore redistribute funds both within their own tier of government as well as between the two tiers of government (i.e. there is redistribution within the regions and municipalities as well as between municipalities and regions). Since the current debate is centered around the struggle between municipalities we narrow our treatment of the system to the municipalities.

The Danish interregional equalization and grants system is, moreover, situated within a broader set of welfare institutions embedded in the Danish welfare state, which historically has been amongst the most encompassing and generous in the world (Esping-Andersen, 1990; Mau Pedersen, 2003). Compared to its three Nordic counterparts – Finland Norway and Sweden – the Danish level of intergovernmental grants are moderate: Sweden and Finland transfer most whereas Denmark transfer relative more than Norway (Blöchlinger & Vamalle, 2009; see also Rattsø, 2004). According to Shah (2007), intergovernmental fiscal transfers in the Nordic countries on average finances relatively less of local governments expenditures compared to non-Nordic European countries. Although, the Danish interregional equalization system is less voluminous compared to Finland's and Sweden's, it still on average finances 22 % of the municipalities budgets – and up to 35 % in some municipalities (KL, 2016; Statistics Denmark, 2017).

The Danish interregional redistribution system is a highly complex and multilayered system<sup>2</sup>. In its essence, the objective of the system is to equalize differences in economic and financial capabilities amongst the local governments based on their tax base and expenditure needs (Finance Committee, 2005; Ministry of Interior and Health, 2010). Differences in local services should then, ideally, not be based on differences in financial capabilities, but mirror local political preferences for certain services and goods. However, as the objective of the Danish interregional redistribution is not to equalize 100 % of the financial differences in the tax base there should be some differences in the quality of services and goods.

More specifically, the system has three major pillars (Ministry of Interior and Social Affairs, 2016; Mau Pedersen, 2002):s

- 1) The General Grant scheme (Danish: Landsudligningen).
  - a. Equalizes 61 % of municipals structural surpluses/debt (all municipalities)
- 2) The Capital Grant scheme (Danish: Hovedstadsudligningen)

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<sup>2</sup> That is not to say that the Danish system in a comparative perspective is particular complex. The structure reform of 2007, which merged a majority of the Danish municipalities, certainly simplified the system.

- a. Equalizes 27 % the municipalities surpluses/debt (only for municipalities in The Capital Region of Denmark)
- 3) The High Structural Debt Grant scheme (Danish: Udligning af kommuner med særligt højt strukturelt underskud)
  - a. Equalizes 32 % of the debt in municipalities with severe structural debts (only applicable for municipalities located outside The Capital Region).

The general grant scheme includes all 98 municipalities. The amount of funds transferred to municipality (x) is based on the net sum of the municipality's so-called structural deficit/surplus. The structural deficit is calculated as the difference between the municipality's expenditure needs and the tax base. Expenditure needs are calculated by a number of "objective" factors (Mau Pedersen, 2009; Blöchlinger & Vamalle, 2009), which measures expenditures related to the demographic and the socio-economic composition of the inhabitants in the municipality<sup>3</sup>. The general grant scheme is calculated as follows:

$$((Tax\ base_i - Average\ tax\ base) - (Expenditure\ needs_i)) * 0,61,$$

Where i is a particular municipality and average tax base is the mean of all municipalities' tax bases. 61 % of a municipality's structural deficit is then compensated. If a municipality has a surplus, it has to pay 61 % of the surplus to the scheme. The general grant scheme is, however, primarily financed by the central government (through a block grant). The measure, therefore, tries to capture to what extent a municipality can finance its expenditure needs if it had an average tax base.

The Capital Grant scheme only includes municipalities located in the Capital Region of Denmark – i.e. 34 of the 98 municipalities. The logic of this scheme is similar to the General Grant scheme: Richer municipalities in The Capital Region finances parts of the poorer municipalities' structural debts in the region. The compensation rate between municipalities in the Capital Region is 27 %.

The High Structural Debt scheme is supposed to equalize municipalities with severe structural debts. If the structural debt the difference between the municipality's expenditure needs and the tax base) is 95 % higher than the average structural debt amongst the Danish municipalities, 32 % of that debt will be equalized. The scheme is only applicable for municipalities located outside The Capital region.

In addition to these three major schemes there is many specific grants, subsidies and other minor redistribution schemes – such as old-age grants, employment grants, equalization of corporate taxes,

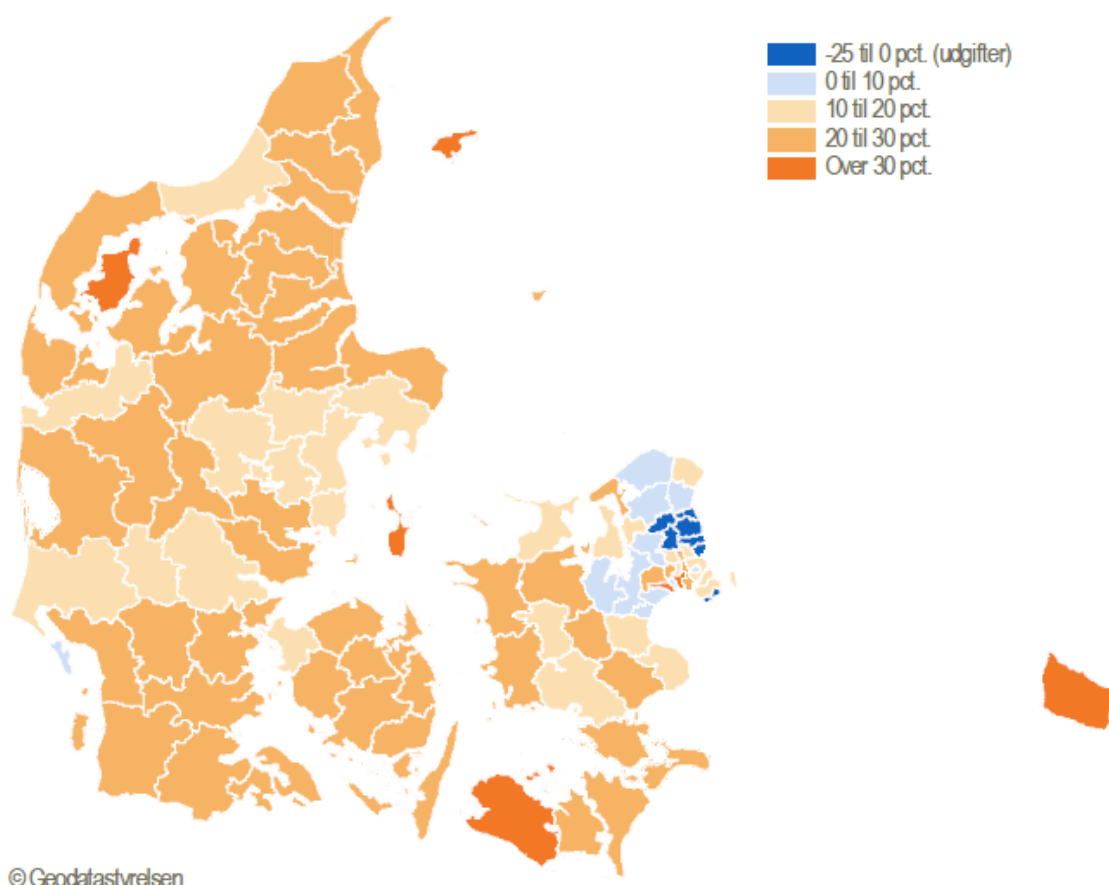
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<sup>3</sup> The compensation of the demographic expenditure needs is a u-shaped function of age – the young and elderly are compensated the most. Socio-economic factors include, amongst other things, unemployment levels, composition of housing, immigrants, and expenditures related to social excluded inhabitants. The demographic factor are weighted by 2/3 whereas the socio-economic factors are weighted by 1/3 of the (net) expenditure needs.

immigration grants, and the like as well as a “overudligning” (literally over-equalization) mechanism that ensures that municipalities can keep 7 % of a given increase in the tax base.

As Statistics Denmark (2017) shows, there are relatively big differences between how much Danish municipalities receive/contribute to the local redistribution system – and hence how much the municipalities depend on the system. In 2016 amongst the 98 municipalities there were seven net contributors – all located near the capital city – and 91 net receivers (see figure 1). As shown in the figure, the extent to which municipalities depend on the system also varies across the country.

*Figure 1. The net sum of receivers and contributors of grants and transfers amongst Danish municipalities, in % of expenditures, 2016.*



Note: Negative values indicate net contributor and positive values indicate net receiver. Source: Statistics Denmark (2017).

### **A Short history of the Danish interregional equalization system – a historic intervention theory**

As most contemporary welfare institutions have a long and rather messy history, the history of the Danish local redistribution system is not an exception. Here, we will outline the broad strokes of the system’s history and its historical intervention theory.

The first institutional pillar underpinning the current system was born out of a change in reimbursement rules in the Social Reform of 1933<sup>4</sup> – the so-called ‘mellem kommunal refusion’ (literately, inter-municipality reimbursement). The objective of the changes was to finance parts of local governments expenditure needs related to care and unemployment (Mau Pedersen, 1995; Lundtorp, 2004). As former Minister of Social affairs, K.K. Steincke, formulated it in the reform text:

Also, the distribution of the amount to be paid by the municipalities (the inter-municipal reimbursement) will be subject to great displacements between the different municipalities, aiming at distributing social costs between the municipalities in greater respect to their ability to carry expenditure. (Steincke, 1933: 69; author’s own translation)

The reform was, amongst other things, a response to increasing financial strains in the 1930s where, in particular, the Danish local market towns were struggling economically (Mikkelsen, 1991). The objective of the local redistribution system was therefore originally designed to redistribute resources more equally between local areas following a principle of social solidarity.

In 1937 the institutional pillars of the Capital Grants scheme were, furthermore, founded. At first, the scheme only included Copenhagen, Frederiksberg and Gentofte municipality (Idenrigsministeriet, 1995). The scheme had a long and complex history that revolved around whether Frederiksberg municipality should be merged with Copenhagen municipality (both located in the center of The Capital Region). To make a long and complex story short: Frederiksberg municipality kept its independence and a minor Capital Grant scheme was instead institutionalized (Teglers, 2006). The objective of the scheme was to eliminate – or at least diminish – differences between town areas in the Capital City of Copenhagen to achieve more equality across the town areas (Mau Pedersen & Jensen, 2004). The scheme was furthermore expanded in 1974/1975 to include all (now) 34 municipalities in The Capital Region.

The Danish interregional redistribution and grants system, therefore, builds on the idea that there are economic inequalities between the municipalities that are not self-inflicted and hence needs to be equalized. The historical logic of the system is therefore to diminish differences in structural inequalities. Historically the system is also based on the idea that there are certain inter-town dynamics in the Capital Region, which calls for special attention. The historical institutionalized intervention theory is shown in table 1.

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<sup>4</sup> Local government grants can, at least, be traced back to 1793, but it was not until the Social Reform of 1933 that the system got truly institutionalized (Mikkelsen, 1991)

*Table 1. Historical institutionalized intervention theory*

<i>Situation theory</i>	<p>There are unequal differences in municipalities financial capabilities, which are not self-inflicted</p> <p>Some municipalities are constrained by severe structural challenges.</p> <p>If inequalities in financial capabilities are not equalized between municipalities, it will result in greater regional inequality.</p> <p>The Capital Region area has specific inter-town dynamics, which needs special attention.</p>
<i>Causal Theory</i>	<p>The general grant scheme creates more regional equality by equalizing differences in structural debts between municipalities.</p> <p>The Capital Grant scheme minimizes inter town inequalities in the Copenhagen area, by equalizing differences in structural debts within The Capital Region.</p> <p>The High Structural Grants scheme will increase inequality be minimizing the structural deficit in municipalities with severe structural debts.</p> <p>Special (earmarked) grants and subsidies will increase equality by equalizing expenditures related to non-local expenditures</p>
<i>Normative theory</i>	<p>Municipalities can best decide themselves how they spend their resources.</p>

Table 2. The three coalitions' intervention theories.

	Better Balance	Stop Region Discrimination	Fair Redistribution
<i>Situation theory</i>	<p>(1) Demographic changes pressure the budgets relatively more in the rural municipalities.</p> <p>(2) The younger generation moves to the bigger cities, which lowers the tax base in rural areas.</p> <p>(3) The expenditure needs have risen relatively more in municipalities in rural areas, while the quality of services and the tax base is bigger in the Capital area.</p> <p>(4) The most economically constrained municipalities are placed outside The Capital .Region.</p> <p>(5) The current system is to complex.</p> <p>(6) If nothing is done inter-regional inequality will keep rising.</p>	<p>(1) 7 out of the 10 of the most economically disadvantaged municipalities are located in The Capital Region.</p> <p>(2) The quality of services in municipalities located in The Capital Region has been declining over the last few year and is now, in general, lower than the national average.</p> <p>(3) It is unjust and unreasonable that they have to keep transfer more money to the other four regions in Denmark.</p> <p>(4) If the current situation continues it will hurt development in The Capital Region and in the whole country.</p>	<p>(1) Expenditure needs related to demographic factors are not fully equalized.</p> <p>(2) The socio-economic factor does not mirror the real expenditures related to these factors</p> <p>(3) The municipalities' real expenditure needs are not correctly assessed in the current system since affluent municipalities can spend relatively more on services, which is interpreted as high expenditure needs in the current system.</p> <p>(4) Reimbursement rules related to immigrants are institutionally complicated and overcompensates the real expenditure needs of housing a migrant in a municipality.</p> <p>(5) If the current situation is not changed, inequalities between municipalities will keep growing.</p>
<i>Causal Theory</i>	<p>(1) Abolishing the General Grant scheme will result in more equal equalization amongst all municipalities as municipalities in The Capital Region no longer would have special privileges.</p> <p>(2) Lowering the equalization of The High Structural Debts scheme from 32 % to 5 % and including municipalities in The Capital Region will result in a more equal equalization as all municipalities would be treated equally.</p> <p>(3) The General Grant scheme should then equalize 88 % of the structural debt/surplus instead of the current 61 % to sustain the current level of equalization.</p> <p>(4) The over-equalization level at 93 % should be kept intact.</p> <p>(5) Making a simpler redistribution system will results in more equality.</p>	<p>(1) Lowering the net sum of inter-regional equalization should be lowered from 1,6 billion euros (2017 level) to roughly 0,9 billion euros (2007 level) will both make the system more just and increase development.</p>	<p>(1) Equalizing 100 % of the demographic expenditure needs will eliminate inequalities related to demographic factors</p> <p>(2) Updating the socio-economic criteria will mirror the real expenditures related to these factors and hence create more equality</p> <p>(3) Changing the calculation of the expenditure needs so that rich municipalities cannot artificially increase their expenditure needs by increasing spending on welfare services will increase equality across the country.</p> <p>(4) Changing reimbursement rules related to immigrants so it equal the real cost of housing an immigrant will increase equality amongst the municipalities as it is not possible to earn money on immigrants</p>
<i>Normative theory</i>	<p>(1) There should be a reasonable relationship between the tax base and the expenditure needs in all 98.municipalities.</p> <p>(2) It should be possible to "finance and develop the welfare in the future". The above changes will allow that.</p>	<p>(1) Inter-regional redistribution is desirable, but too much redistribution much can retard development.</p>	<p>(1) Equality is a good and can best be achieved through a number of changes of the current system.</p> <p>(2) The debate over the system should not be a classic cleavage discussion between rural areas and the big metropolitan areas.</p>

## **Empirical Analysis: The three coalitions' intervention theories<sup>5</sup>**

We now show how arguments for redistribution at the local level is mobilized by analyzing the three coalitions' intervention theories. The three coalitions' intervention theories are summarized in table 2.

### *Better Balance*

Better Balance is the coalition with the biggest support amongst the Danish municipalities (63 out of the 64 municipalities located outside The Capital Region supports the initiative, according to themselves). Its prime organizers are Esbjerg, Herning, Hjørring, Holstebro, Odsherred, Randers, Vordingborg and Aarhus Municipality – all located in The Central and North Denmark Region. The coalition was formed in 2016 as a response to the labor market reform of 2015 that changed reimbursement rules, which has implication for the grant system as the “objective” expenditure needs changed (i.e. socio-economic factors related to employment).

Better Balance's stated main goal is to “create better balance amongst all municipalities in Denmark” (see <http://www.bedrebalance.nu/>). The actor argues that the demographic development pressures the budgets relatively more in the rural municipalities. The actor also highlights that a higher percentage of the younger generation moves to the bigger cities, which also pressures the economic capabilities in the rural areas since the number of people in the working-age diminishes resulting in a relatively smaller tax base. Moreover, the expenditure needs have risen relatively more in municipalities in rural areas, while the quality of services and tax base is bigger in the Capital area, or so Better Balance argues. The actor finally highlights that the most economically disadvantaged municipalities are placed outside The Capital Region. Municipalities in The Capital Region should therefore not have a grant scheme that only applies to themselves.

As a solution to these problem pressures, Better Balance argues that the Capital Grant scheme should be abolished. Instead, The General Grant scheme should equalize 88 % of the structural debt/surplus instead of the current 61 %. That way special privileges granted for municipalities located in The Capital Region would be eliminated and municipalities located in and out of The Capital Region would gain/lose equally from the local redistribution system. The High Structural Debts scheme should, according to the actor, furthermore be lowered from 32 % to 5 % and the municipalities in The Capital Region should also be included in the scheme. Finally, the over-equalization level at 93 % should be kept intact. According to Better Balance's own proposition, they do not want to lower or increase the net sum of interregional

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<sup>5</sup> Citations from the three main coalitions are throughout this section translated from Danish to English by the authors.

redistribution and grants transferred to municipalities. The actor wants to restructure the system in accordance with the idea of a “more simple equalization system”.

Implementing these proposed adjustments will, according to Better Balance, be just as there should be a reasonable relationship between the tax base and the expenditure needs in all 98 municipalities. In addition, the actor also argues that it should be possible to “finance and develop our welfare in the future”. As such, the actor believes that a simpler system will lead to more equality between the municipalities.

### *Stop Regional Discrimination*

Stop Regional Discrimination consist of the 34 municipalities located in The Capital Region (i.e. municipalities located in and near Copenhagen). The coalition was formed in 2016 as the municipalities in The Capital Region thought that the local redistributions system in Denmark has grown too voluminous.

Stop Regional Discrimination claims that the majority (7 out of 10) of the most economically disadvantaged municipalities are located in The Capital Region, as a result of relatively many homeless and poor inhabitants. The actor moreover argues that a “model family”<sup>6</sup> in the rural areas have a much higher disposable income relative to model families in The Capital Region (96.000 kr. according to their own calculations). Stop Regional Discrimination moreover argues that the quality of services in municipalities located in The Capital Region has been declining over the last few year and is now, in general, lower than the national average. Given these conditions and the fact that (some of) the municipalities in the Capital Region contributes the most to the General Grant scheme, the coalition, therefore, thinks it is unjust and unreasonable that it has to transfer more money to the other four regions in Denmark.

As a solution to these problems, Stop Regional Discrimination thinks that the municipalities’ net contribution should be lowered from 1,6 billion euros (2017 level) to roughly 0,9 billion euros (2007 level). In addition, the coalition thinks that the current level of interregional equalization impedes growth and development in The Capital Region and hence development in the whole country. Minimizing the net sum of interregional grants and transfer is therefore expected to benefit the municipalities in The Capital Region with positive spill-over effects to the rest of the country.

Stop Regional Discrimination, however, thinks that there should be a local redistribution system of a certain size. However, the coalition sees the current system as unjust – which is also clearly implied in their name. Underlining these arguments seems to be a normative assertion that equity is important, but not at the cost of efficiency. Too much redistribution will minimize efficiency which will hurt the society as a whole. On the other hand, too little redistribution could hurt interregional cohesion.

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<sup>6</sup> [A model family is defined as ...]



### *Fair Redistribution*

Fair Redistribution is a coalition of six east Jutlandish municipalities (Skanderborg, Odder, Farvskov, Silkeborg, Syddjurs and Hedensted municipality). The coalition was formed in 2008 as the Ministry of Welfare was asserting the local grant systems (Rimelig Udligning, 2009). The objective of the initiative was to better understand if the municipalities' financial capabilities were correctly assessed in the system.

According to Fair Redistribution, the current system is in general unfair and needs to be updated. First, the actor argues that the current system is not equalizing the expenditure needs related to demographic factors fully. In the current system, only 2/3 of the expenditure needs related to age is equalized, which in general favors the bigger cities, or so the coalition argues. Second, Fair Redistribution thinks that the socio-economic factor is unfair and misguided. This critique especially pertains to the equalization of "families with special living conditions", "low wage earners", "immigrants" and "changes in the demographic". Third, the actor argues that the municipalities real expenditure needs are not correctly assessed in the current system as affluent municipalities can spend relatively more on services, which is interpreted as high expenditure needs in the current system. As such, rich municipalities are argued to be able to stimulate the expenditure needs through better services, which distorts their real expenditure needs and hence lowers their contribution to the system. In particular, Fair Redistribution argues that The Capital Grants scheme distorts the differences between municipalities achieving funds from The Capital Grant scheme and municipalities achieving grants from The High Structural Debt scheme. Finally, the coalition argues that reimbursements given to immigrants is institutionally complicated and overcompensates the real expenditure needs of housing a migrant in a municipality.

These problems can, according to Fair Redistribution be solved by changing institutional mechanisms in the contemporary system. First, the inequalities stemming from the demographic expenditure needs can be solved by equalization 100 % of the differences in expenditures related to demographic factors between municipalities. Second, the problems relating to the socio-economic factors can be solved by adapting and updating the criteria, so they mirror the real expenditure needs related to the socio-economic factors. Third, the calculation of the expenditure needs should be changed so that rich municipalities cannot artificially increase their expenditure needs by increasing spending on welfare services. Fourth, the overcompensating – and complex – equalization of expenditures related to immigration should be lowered so the cost of getting another immigrant should mirror the grant received from getting another immigrant. That way municipalities cannot earn money on housing an extra immigrant.

Fair Redistribution moreover has some normative perceptions of the system. According to the actor, the contemporary system is creating regional inequalities, which are unproductive for the country as a whole as well as each individual municipality. Fair Redistribution moreover thinks that the debate should not be a classic cleavage discussion between rural areas and the big metropolitan areas. Underlining Fair Redistribution arguments seems to be the idea that making the system more equal through a number of initiatives is quite important for the working of the Danish society. As such equality seems to be more crucial than efficiency.

### **Discussion: trade-offs and rationales behind the three intervention theories**

As shown in table 2, there is certainly disagreement on the most crucial problem pressures, solutions and normative assertions underlining the intervention theories. Where Better Balance to a considerable extent argues for a more simple and equal system – “a one-stringed system” – Stop Regional Discrimination argues for retrenching the system to secure development and Fair Redistribution argues for more complexity to ensure equality. It is, therefore, no surprise that Fair Redistribution supports Better Balance’s equality agenda. As such, Fair Redistribution and Better Balance seem to be allied against Stop Regional Discrimination.

However, underlining the coalitions’ intervention theories are some more fundamental disagreements concerning the trade-offs in the system. Although admittedly crude, Better Balance argues for a more simplistic redistribution system to ensure more equality across the municipalities – i.e. an argument of administrative simplicity. Simplicity is the means to the end (more interregional equality). Fair Redistribution, however, argues for more equality through a number of specific institutional changes – i.e. an argument of administrative complexity and equality. Although, Better Balance and Fair Redistribution seem to agree on the objective (more equality) they disagree on the trade-offs underlining the solutions. Stop Regional Discrimination, moreover, argues that a too voluminous redistribution system hurts growth (efficiency) in The Capital Region and hence in the whole country – i.e. the classic argument of a trade-off between equality and efficiency. As such, Stop Regional Discrimination both disagrees with the two other balances on the objective of the system and the means to reach the objective.

Underlining the intervention theories seems to be two main trade-offs or cleavages (see table 3). One pertains to the classic debate on equality vs. efficiency and is shown in the coalitions’ views of the objective of the system. The other pertains to the trade-off between administrative complexity vs. simplicity and appears in the three actors’ solutions. At the risk of overgeneralization, one can place each of the actors on this two-dimensional framework. Fair Redistribution favors more equality as the prime

objective and complex measures as the solution. Better Balance also fights for more equality but argues for a system of more simplicity to ensure that. Stop Regional Discrimination both argues for more equality (it is unjust that they have to keep sending more money to the rest of the municipalities) and efficiency (the Copenhagen area drives growth and development in the whole country). Stop Regional Discrimination solution is however rather simple: lower the overall level of redistribution. The coalition does not pinpoint what institutional underpinnings of the system they want to change – just that the overall redistribution level should be lowered. Stop Regional Discrimination is therefore both concerned with equality as well as efficiency, achieved through simple initiatives.

**Table 3.** Central trade-offs in Danish municipalities' intervention theories

Administrative complexity vs. simplicity		
	Complexity	Simplicity
Equality vs. efficiency	FR	BB, SRD
Efficiency		SRD

Note: FR = Fair Redistribution. BB = Better Balance. SRD = Stop Regional Discrimination.

Although crude, table 3 indicates how the actors frame their arguments as the struggle between the actors has intensified since 2015/2016. As their intervention theories diverge on some of the most crucial trade-offs underlining the current system, it is no surprise that the actors openly combat each other. The table also shows why changes in the system hardly will satisfy all actors, as the actors disagree on some of the most crucial principals underlining the system. However, Fair Redistribution and Better Balance are much closer to each other as they agree on the objective. The central cleavage, therefore, is between Stop Region Discrimination one the one side who wants to retrench the system, and Fair Redistribution and Better Balance one the other side who want to restructure, but not minimize, the current system.

Here, we have focused on the logic and mobilization behind the three coalitions' intervention theories. However, as some of their statements clearly are opposite to one another, an important task for future research is to test what intervention theories are correct. This is a challenging task but can be done through statistical analysis carefully assessing the coalitions' claims one by one.

## Conclusion

The struggle over the local redistribution system has certainly intensified amongst Danish municipalities over the last years. As a consequence, the municipalities have now mobilized into three major coalitions. The coalitions all agree that some interregional redistribution is desirable, but they disagree fundamentally on the size of the system and its institutional underpinnings. Likewise, all three coalitions find the current system unfair, but their view of fairness varies substantially. The article shows how these views of local redistribution and fairness are embedded in different intervention theories amongst the coalitions. That is to say, the three coalitions have different views of the current problems in the systems, how to fix them and the normative foundations of the system. Unveiling the coalitions' intervention theories show how local actors mobilize in struggles over interregional redistribution in a context of intense conflict.

The Capital Region coalition – Stop Regional Discrimination – finds the current system unfair as they have to keep sending more money to the rest of the municipalities, while they claim to have a lower service level. The coalition also thinks that the current system is inefficient, since it retards development and growth in the Copenhagen area and hence lowers development in the whole country. The solution: lower the current level of interregional redistribution.

Better Balance – a coalition supported by almost all the municipalities in the province outside the Capital Region – also finds the current system unfair as the coalition thinks the municipalities outside the Copenhagen area is losing in the current system. The solution: make the redistribution system simpler and remove special privileges for municipalities in the Copenhagen area.

Fair Redistribution – an older coalition of six municipalities in the province – likewise thinks that the current system is unfair, but the coalition sees the fairness deficit as stemming from the institutional design of the current system. The solution: change a number of redistribution rules and mechanisms in the current system to secure more equality across all municipalities. The three coalitions therefore fundamentally disagree on the problem pressures and the solutions, although Better Balance's and Fair Redistribution's interest are most closely linked.

We further argue that the disagreement between the actors on some the most central trade-offs in the system goes some way in explaining why the struggle has intensified over the last few years. This last point, however, needs much further empirical study to examine. An important task for future research is, therefore, to better understand the rationales behind local actors views of interregional redistribution. Another important task for future research is to determine if the coalition's situation and causal theories are correct. That could carefully be assessed through statistical analysis.

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